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12 **UNITED STATES DISTRICT COURT**
13 **CENTRAL DISTRICT OF CALIFORNIA**
14

15 UNITED STATES OF AMERICA,
16 Plaintiff,

17 v.

18 OLYMPIA HEALTH CARE LLC,
19 ALECTO HEALTHCARE SERVICES,
20 LLC, MPT OF LOS ANGELES, L.P.,
21 MPT OF OLYMPIA, LLC, MPT
22 OPERATING PARTNERSHIP, L.P.,
23 MEDICAL PROPERTIES TRUST,
24 INC., SHERMAN/GRAYSON
25 HOSPITAL, LLC, ALECTO
HEALTHCARE SERVICES
SHERMAN, LLC, LAXMAN REDDY,
MATTHEW WILLIAMS, and
JEREMY REDIN,

26 Defendants.
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Case No. 2:23-cv-01783-ODW-PVC

JOINT STATUS REPORT

1 Plaintiff United States of America (“Plaintiff”), Defendants Olympia Health
2 Care LLC, Alecto Healthcare Services Sherman, LLC, Laxman Reddy, Matthew
3 Williams, and Jeremy Redin (collectively the “Alecto Defendants”), and
4 Defendants MPT of Los Angeles, L.P., MPT of Olympia, LLC, MPT Operating
5 Partnership, L.P., and Medical Properties Trust, Inc. (collectively the “MPT
6 Defendants”) (Plaintiff with Alecto Defendants and MPT Defendants, collectively
7 the “Parties”) by and through their undersigned counsel, submit this joint status
8 report as ordered by the Court (Doc. No. 26) in light of the bankruptcy filings and
9 consequent automatic stay of this litigation against defendants Sherman/Grayson
10 Hospital, LLC (“Sherman Hospital”) and Alecto Healthcare Services LLC
11 (“Alecto”) (collectively, “Bankrupt Defendants”). In short, as detailed below, the
12 Parties report that (1) progress is being made in resolving Plaintiff’s claims against
13 the MPT Defendants without further litigation, and (2) the ongoing bankruptcy
14 proceedings along with the Alecto Defendants’ dispute with their insurer warrants
15 a stay of the litigation between Plaintiff and the Alecto Defendants.

16 1. First, unaffected by the bankruptcy filings are the claims by Plaintiff
17 against the MPT Defendants, and they continue to work to resolve their dispute
18 without motion practice, consistent with Plaintiff and MPT Defendants’ prior
19 filings with the Court (Doc. Nos. 15, 20, 27). The MPT Defendants’ deadline to
20 respond to the complaint has been further extended to September 7, 2023 (Doc.
21 No. 28). If this dispute is resolved – as anticipated – without the need for further
22 litigation, additional time will likely be needed to obtain necessary approvals by
23 the appropriate officials at the Centers for Medicare and Medicaid Services of the
24 Department of Health and Human Services (“CMS”) and the Department of
25 Justice.

26 2. Second, Plaintiff’s claims against the Alecto Defendants are
27 significantly impacted by the Alecto and Sherman Hospital bankruptcies. The
28 Alecto Defendants and the Bankrupt Defendants filed their Answer to the

1 Complaint on May 11, 2023, over a month before Alecto and Sherman Hospital
2 filed separate Chapter 11 bankruptcy petitions on June 16, 2023, and June 23,
3 2023, respectively, which are pending in two separate cases in the United States
4 Bankruptcy Court for the District of Delaware. Sherman Hospital has identified a
5 purchaser and remains in operation during the bankruptcy. Alecto also continues to
6 operate and seeks to reorganize and emerge from bankruptcy.

7 3. While those bankruptcies are proceeding, the Parties cannot predict
8 when they will be completed. The required Section 341(a) meeting of creditors for
9 the Sherman Hospital bankruptcy took place on July 19, 2023 and July 26, 2023,
10 and the required Section 341(a) meeting of creditors for the Alecto bankruptcy
11 took place on July 25, 2023 and will be completed on a future date to be set by the
12 United States Trustee.

13 4. Discovery has not yet begun in this case. On June 23, 2023, Plaintiff
14 filed the Parties' first stipulation to extend time for the scheduling conference
15 through September 18, 2023 (Doc. No. 22). On June 26, 2023, the Court entered
16 its Order granting the parties' stipulation for continuance of the scheduling
17 conference (Doc. No. 23). As a result, a scheduling order has not been issued.
18 Plaintiff continues to analyze and evaluate the impact of the bankruptcies on its
19 claims against the Alecto Defendants, including the effect of the automatic stay on
20 Plaintiff's ability to conduct discovery of information in Alecto's custody and
21 control, which necessarily hinders the ability to effectively meet with the Parties'
22 counsel, prepare a report to the court, and prepare for and participate in a
23 scheduling conference in court.

24 5. Plaintiff and the Alecto Defendants agree that much necessary
25 discovery – most importantly from Alecto – cannot occur without permission from
26 the bankruptcy court. Specifically, although the individual defendants Laxman
27 Reddy, Matt Williams and Jeremy Redin may have access to Alecto or Sherman
28 Hospital's documents for conducting business, the bankruptcy stay would not

1 allow production of Alecto or Sherman Hospital's documents in this litigation
2 before this Court. Production of documents in the bankruptcies would require
3 hiring attorneys and support staff at substantial expense. Those expenses would
4 require approval by the bankruptcy court, which at this moment cannot be ensured,
5 and which would erode the bankruptcy estate's assets of Alecto or Sherman
6 Hospital for a potential recovery by Plaintiff.

7 6. More importantly, and regardless of the bankruptcies, Alecto
8 Defendants and the Bankruptcy Defendants are involved in an insurance coverage
9 dispute that should be resolved before a Rule 16 conference is held and scheduling
10 order is issued. On December 5, 2022, the Alecto Defendants tendered the claims
11 that the United States later asserted in the Complaint against the individual
12 defendants to their primary and excess insurance carriers. With cooperation from
13 the United States, Alecto Defendants provided a draft complaint to the primary
14 insurance company for its review and consideration on January 22, 2023. Despite
15 follow-up from Alecto Defendants with their insurance companies, the primary
16 insurance company did not issue a coverage decision until June 15, 2023. The
17 coverage letter denied coverage for the claim under the primary policy and under
18 an excess policy issued by the primary insurance company; the other excess policy
19 follows form and the excess carrier will presumably follow the coverage decision.
20 Alecto Defendants disagree with the primary insurance company's decision to
21 deny coverage under any of the policies and are contesting the denial. This
22 disagreement could result in future mediation among the parties on coverage as
23 well as a potential declaratory judgment action on the coverage decision. A delay
24 in the scheduling conference and initiating discovery will allow the parties to seek
25 a more favorable outcome on coverage which could ultimately facilitate a
26 resolution of this matter while respecting judicial economy. Moreover, the
27 insurance policies at issue are eroding policies, meaning insurance money spent on
28 defense costs reduces the amount of money available for potential recovery by

1 Plaintiff. The Parties believe that a stay pending resolution of the bankruptcies and
2 insurance coverage dispute is the most efficient and economical method to resolve
3 this matter at this time, with quarterly reports to be filed by the parties so the Court
4 can evaluate the progress of the bankruptcy and insurance dispute issues relative to
5 the prosecution and needs of this case.

6 7. Plaintiff, however, reserves the right to move to lift any stay of this
7 case by this Court and resume litigation if Plaintiff, in its sole discretion,
8 determines that resolution of the bankruptcies or the insurance coverage dispute is
9 no longer in the best interest of the United States.

10 8. Lastly, concerning the MPT Defendants, preparing for and attending a
11 scheduling conference before their deadline to file a motion to dismiss on or before
12 the current September 7, 2023 deadline (and the related briefing) would distract
13 from the Plaintiff and MPT Defendants' efforts to consensually resolve the motion
14 to dismiss.

15 9. This joint status report is made in good faith and not for the purpose
16 of delay or for any other improper purpose.

17 Dated: July 31, 2023

UNITED STATES OF AMERICA

18 By: /s/ John R. Kresse

19 John R. Kresse
20 Trial Attorney
United States Department of Justice

21 Attorneys for Plaintiff United States
22 of America
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1 Dated: July 31, 2023

MICHAEL BEST & FRIEDRICH LLP

2 By: /s/ Uttam Dhillon

3 Uttam Dhillon (CA Bar No. 131773)

4 Attorneys for Defendants Olympja
5 Health Care LLC, Alecto Healthcare
6 Services, LLC, Sherman/Grayson
7 Hospital, LLC, Alecto Healthcare
8 Services Sherman, LLC, Laxman
9 Reddy, Matthew Williams, and
10 Jeremy Redin

9 Dated: July 31, 2023

KTBS LAW LLP

10 By: /s/ Samuel M. Kidder

11 Samuel M. Kidder (CA Bar No.
12 284015)

13 Attorneys for Defendants MPT of Los
14 Angeles, L.P., MPT of Olympia, LLC
15 MPT Operating Partnership, L.P., and
16 Medical Properties Trust, Inc.

17 **ATTESTATION**

18 In accord with Local Civil Rule 5-4.3.4(a)(2)(i), I attest that all other
19 signatories listed, and on whose behalf this filing is submitted, concur in the
20 filing's content and have authorized the filing.

21 Dated: July 31, 2023

UNITED STATES OF AMERICA

22 By: /s/ John R. Kresse

23 John R. Kresse
24 Trial Attorney
25 United States Department of Justice

26 Attorneys for Plaintiff United States
27 of America
28